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SUBJECT: RUSSIA AND UKRAINE: TWO CHEERS FOR YANU?

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Classified By: Minister-Counselor for Political Affairs Alice Wells. Reasons: 1.4(B/D).

[1](#)1. (C) Summary: Moscow was pleased that new Ukrainian PM Viktor Yanukovich made his first foreign trip to Russia to meet with President Putin and PM Fradkov in Sochi. Observers here expect that the tone of the relationship will improve, but on substance, few saw Yanukovich as a pushover. On the gas contract, Moscow may moderate the rate of increase in prices to provide a short-term boost to Yanukovich, but most expected prices to go up by next spring and did not believe Ukraine to be an exception to Russia's drive toward market prices in the former republics. Moscow was heartened by the referendum requirement for NATO accession in Kiev's Universal Declaration because it is likely to delay forward movement on the issue. While Russia will likely renew its push for Ukrainian participation in the Single Economic Space, few expect Kiev to move in that direction. Moscow will exploit the question of Russian language usage in Ukraine to placate nationalist opinion here. While Russia will seek tactical advantage with a Ukrainian PM who is favorably disposed to Moscow, Russia lacks a strategic approach to Ukraine that would make a broader partnership attractive. End Summary.

Positive Tone in Sochi

[1](#)2. (C) On August 15-16, PM Yanukovich met with PM Fradkov in Sochi to hold bilateral talks on energy and economic issues and then attended the Eurasian Economic Community (EurAsEc) "informal" summit as an observer. He met with President Putin on the margins of the EurAsEc meeting. Details of the bilateral discussions are still not clear (see ref A), but Ukrainian Embassy poloff Myroslava Shcherbatyuk told us the meetings were aimed at restarting bilateral discussions that had been put on hold for months following the March elections. On the Russian-Ukrainian gas deal, she understood the sides had agreed that prices would hold steady through the winter, but discussions would continue on prices for the remainder of 2007. The Russians apparently urged the Ukrainians to deal directly with Turkmenistan on price and supply terms given their concerns about a sharp jump in prices next year.

"Small Victory"

[1](#)3. (SBU) Yanukovich's Sochi meetings were preceded by intense press speculation about how accommodating the new government would be to Russian interests. Given Putin's full-throated support for Yanukovich in the 2004 elections, most Kremlin-connected pundits not unexpectedly saw the formation of a Yanukovich-led government as likely to lead to a significant improvement in the tone of Ukrainian-Russian ties. Gleb Pavlovskiy, President of the Effective Policy

Foundation, told interviewers that Yanukovich's success was "revenge" for being "deprived of his 2004 victory" and hailed the new prime minister as a "pan-national politician" who would be a leading presidential candidate based on his desire for better relations with Russia. Sergey Markov, who like Pavlovskiy had been a consultant for Yanukovich's 2004 campaign, also blessed the new government for bringing Ukraine back "from the brink of national division." However, Markov's triumphalist tone was muted; he considered Yanukovich's appointment as "a small victory" for Russia because Moscow's influence in Ukraine had dwindled. He said Moscow shouldn't believe that Yanukovich would necessarily be a "pro-Moscow PM." Other articles claimed that Yanukovich would be constrained by his Donetsk backers and by the terms of the Universal Declaration.

A Man We Can Do Business With?

14. (C) Andrey Ryabov, a scholar with the Institute of World Economics and International Relations (IMEMO), agreed that the outward tone of the relationship would improve; rhetorically, at least, Yanukovich would avoid irritating Russian sensibilities. However, on economic issues in particular, Yushchenko would likely drive a hard bargain. He had to be "pro-Ukrainian" on these issues because the bulk of Yanukovich's Donetsk patrons were opposed to allowing Russian firms greater access to the Ukrainian market. BBC correspondent Konstantin Eggert argued that thinking of Yanukovich as a Russian "puppet" was simplistic and the Kremlin did not view him that way. Yanukovich was a Ukrainian nationalist of a different sort than Yushchenko; he seconded Ryabov's view that the Donetsk clan had their own problems with Russia. Eggert went on to note that while the

MOSCOW 00009018 002 OF 003

Kremlin was quite comfortable dealing with a "soft authoritarian" backed up by business interests, Ukraine's ongoing transition to a functioning democracy in which fair elections were held and parties needed to bargain was deeply disturbing.

GOR: Moving Beyond Wait-and-See

15. (C) The GOR was not particularly effusive in its public comments about the new government in Kiev. Putin made phone calls congratulating both Yushchenko and Yanukovich over the formation of the government (three days after the fact). Speaking before the Sochi meetings, MFA Ukraine Desk Senior Counselor Vyacheslav Yelagin underlined to us that Moscow had been patient with Ukraine as bargaining over the government had extended over more than four months. Now that a new government was in place, Russia was willing to engage. Yelagin said that a meeting between Putin and Yushchenko was likely in the fall, with no venue identified yet. (Note: Shcherbatyuk told us that Putin had been invited to the Babi Yar commemoration in late-September in Kiev but had not yet replied. End Note.) Yelagin said the Russians saw the fall meeting as the formal launch of the Yushchenko-Putin Commission, which had been agreed to last year but which had never met. Both Yelagin and Shcherbatyuk said that the full range of bilateral subcommittees (on economic relations, humanitarian issues, international cooperation, security, the Black Sea Fleet and border delineation) would also begin to meet now that Ukraine had a new government. Shcherbatyuk said another Yanukovich-Fradkov meeting was likely in Kiev in November.

Gas Deal Remains in Place, but Prices Rise

16. (C) While the details of any agreement at Sochi remain murky, the analysts and the MFA official we talked to thought it was clear that Kiev would face higher prices -- if not now, then soon. BBC correspondent Eggert told us that gas

prices were a double-edged sword for Russia. Moscow clearly preferred Yanukovich in office, Putin also seemed intent on raising prices to market rates for many of Russia's neighbors. However, too sharp an increase would negatively affect the outmoded heavy industry in eastern Ukraine and the businessmen who own it and who are Yanukovich's patrons. While a shock to the system caused by a precipitous increase in energy prices would threaten many of these "industrial dinosaurs," Eggert said, at the same time it would force Ukrainian businesses to move away from the remnants of the Soviet-style economy and move to a more energy efficient European model. Ryabov pointed to the possibility for shortages in Ukraine because of insufficient storage of gas and thought that Russia would want to shore up support for Yanukovich and help Ukraine through a difficult winter. However, when spring arrives, he predicted that Moscow would take a harder line on prices.

NATO

17. (C) Russian analysts parsed the NATO language in the Universal closely to determine Kiev's direction. Most public commentary pointed to the Universal's referendum language as a roadblock to NATO hopes, but some in the nationalist press speculated that a "well funded brainwashing campaign" would begin soon to persuade Ukrainians of the benefits of membership. Reflecting the depth of feeling here on the issue, Council on Foreign and Defense Policy head Sergey Karaganov stressed to us that Ukraine's admission into NATO would be a "poison pill" for U.S.-Russian relations. The BBC's Eggert pointed out that while FM Tarasyuk and MOD Hrytsenko would undoubtedly pursue Yushchenko's goal of membership, those who support NATO in Ukraine face an uphill challenge. Russia sees the majority of Ukrainians as either skeptical about the value of NATO or opposed outright to membership; the Kremlin is counting on the referendum requirement to slow the process down.

18. (C) Ryabov thought that Yanukovich took a completely instrumental view of the NATO issue. In any event, Yanukovich would be focused on the more immediate task of making sure his Donetsk supporters "grabbed the commanding heights" of the Ukrainian economy. The NATO question could be put off until later, when Yanukovich could make an assessment of the leverage that pursuing NATO membership could provide in the bilateral relationship with Moscow. Russia wanted any decision put off for as long as possible.

EU vs. SES?

MOSCOW 00009018 003 OF 003

19. (C) Most of our interlocutors attributed limited significance to Universal language on Ukrainian intentions toward the EU and the Russian-backed Single Economic Space (SES). Given the EU's "enlargement fatigue," none thought that the distant prospects for EU admission would be sufficient to persuade Ukraine to make the difficult economic choices needed to prepare for admission (which might threaten Russian interests). On the SES, Ryabov claimed that the Kremlin was pessimistic about the likelihood of Ukraine ever being interested in joining the type of SES that Moscow envisioned. Kiev wanted a free trade area so it could sell in Russia's vast and growing market, but did not want the supranational controls over customs and economic decision making that Moscow was pushing. In any event, Russia was paying more attention to the EurAsEc than to the SES. The MFA's Yelagin acknowledged that Ukraine was not as committed to the SES concept as were Russia, Kazakhstan and Belarus and said that at some point a decision would need to be made about whether Ukraine fit into the SES.

RUSSIAN LANGUAGE USAGE

¶10. (C) Yelagin stressed that the issue of Russian language usage in Ukraine was a concern at the highest levels of the Russian government and that Moscow did not view this as solely an internal issue for the Ukrainians to sort out. He argued that "preventing" the use of Russian in schools and in the professions was discriminatory and noted acidly that if Ukraine was so intent on endorsing "European values," then it should consider allowing people to speak their own language. Ryabov thought that Yanukovich used the language issue to appeal to his political base and that Moscow used it to placate nationalists here, but was skeptical that it would have much bearing on the bilateral relationship.

COMMENT

¶11. (C) While Moscow undoubtedly was pleased that Yanukovich eventually ended up as PM (given the alternatives), we were struck by the widespread acknowledgment among our interlocutors that the relationship could not return to its cozy, pre-Orange Revolution days. From Russia's perspective, the tone will improve, but most we talked to thought that ties would be pragmatic and business-like. This will likely be reflected in the ongoing gas discussions, where it seems that the only question remaining is how sharply gas prices will rise. NATO membership remains a hot-button issue that dominates any discussion of Russian-Ukrainian relations, although Russia sees the referendum requirement as a substantial roadblock and will hope for delay. While the bilateral consultative machinery with its raft of commissions will creak back into gear, few substantive results should be expected, given the divisions between Ukraine and Russia. We assess that Moscow has been unable to identify a positive strategy for turning Ukraine back towards Russia and will try to use the Yanukovich era to seek what tactical advantages it can.

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